

## Message Text

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PAGE 01 LONDON 10191 01 OF 02 021635Z

45

ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 AGR-05 ( ISO ) W

----- 032480

R 021616Z JUL 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2546

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LUXEMBOURG

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USMISSION GENEVA

AMCONSUL BELFAST

AMCONSUL EDINBURGH

AMCONSUL LIVERPOOL

LIMITED OFFICIAL USE SECTION 01 OF 02 LONDON 10191

E.O. 11652: N/A

TAGS: EFIN, ELAB, PINT, UK

SUBJECT: REACTION TO CHANCELLOR'S ANTI-INFLATION PRO-

POSALS

REF: LONDON 10138

SUMMARY - REACTION TO CHANCELLOR HEALEY'S JULY 1 STATE-

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PAGE 02 LONDON 10191 01 OF 02 021635Z

MENT THAT HMG IS PREPARED TO ENACT STATUTORY INCOMES

POLICY IN EVENT UNIONS FAIL TO AGREE ON PLAN TO LIMIT OVERALL WAGE INCREASE TO 10 PERCENT (REFTEL) HAS BEEN PREDICTABLE. TUC LEADERS RESPONDED CAUTIOUSLY, REAFFIRMING THEIR SUPPORT FOR VOLUNTARY APPROACH, WITH LEFT-WING DISSENTING. LABOR PARTY LEFT-WING DENOUNCED HEALEY AND GOVERNMENT FOR BETRAYING ELECTION PROMISES AND MANDATE. RESPONSE FROM OTHER SECTORS OF LABOR PARTY WAS MIXED, RANGING FROM DELIGHT TO GRUDGING ACCEPTANCE. CONSERVATIVE SHADOW CABINET, WHICH MET FOLLOWING HEALEY'S STATEMENT, ADOPTED "WAIT AND SEE" POSTURE. LIBERAL SPOKESMAN CHORTLED OVER STATEMENT, CALLING IT VINDICATION OF THEIR POSITION WHICH HAS FAVORED A STATUTORY POLICY. SHOULD TUC/CBI EFFORTS TO AGREE ON A VIABLE VOLUNTARY AGREEMENT FAIL, IT IS UNLIKELY THE GOVERNMENT WOULD HAVE SERIOUS DIFFICULTY IN OBTAINING PARLIAMENTARY APPROVAL FOR A STATUTORY POLICY. THE COST TO THE LABOR MOVEMENT, HOWEVER, COULD BE HIGH, DEPENDING ON THE DETAILED PROVISIONS OF THE POLICY. END SUMMARY.

1. INITIAL TUC RESPONSE TO HEALEY'S JULY 1 ANNOUNCEMENT WAS CAUTIOUS. TUC GENERAL SECRETARY LEN MURRAY AFFIRMED THAT THE UNIONS WOULD CONTINUE EFFORTS WITH THE CBI TO ACHIEVE A TIGHTER, VOLUNTARY PAY POLICY. TGWU LEADER JACK JONES ECHOED MURRAY, NOTING THAT HIS UNION HAD JUST ENDORSED A TOUGHER WAGE RESTRAINT POLICY ON THE UNDERSTANDING THAT IT WOULD OPPOSE ANY STATUTORY POLICY. PREDICTABLY, AUEW PRESIDENT HUGH SCANLON WAS HARSHLY CRITICAL OF HEALEY, ASSERTING THAT EFFORTS TO COMPEL THE UNIONS TO ACCEPT A VOLUNTARY POLICY WOULD NOT SUCCEED. HE ALSO REAFFIRMED HIS SUPPORT FOR FREE, UNRESTRICTED COLLECTIVE BARGAINING.

2. PARLIAMENTARY LABOR PARTY (PLP) REACTION WAS MIXED. TRIBUNITE FRANK ALLAUN REJECTED HEALEY'S STATEMENT, CHARGING (CORRECTLY) THAT A STATUTORY POLICY WOULD REPRESENT THE REPUDIATION OF THE PARTY'S ELECTION MANIFESTO. THE TRIBUNE GROUP AS A WHOLE SUBSEQUENTLY MET AND PREPARED A LETTER DENOUNCING THE GOVERNMENT'S STYLE AND PROGRAM. THE LABOR RIGHT-WINGERS' RESPONSE WAS NEARLY AS WARM AS THE TRIBUNITES' WAS HOSTILE. VARIOUS RIGHT-LIMITED OFFICIAL USE

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PAGE 03 LONDON 10191 01 OF 02 021635Z

WING LABOR MPS YESTERDAY TOLD EMBOFF THAT THEY SUPPORTED HEALEY'S POLICY STATEMENT, NOTING THAT A STATUTORY POLICY IS THE ONLY POSSIBLE APPROACH TO THE CURRENT INFLATION PROBLEM. OTHER LABOR MODERATES, HOWEVER, WERE LESS PERSUADED THAT A STATUTORY POLICY WOULD WORK AND REMAINED HOPEFUL THAT THE TUC AND CBI COULD AGREE ON VOLUNTARY PACKAGE ACCEPTABLE TO THE GOVERNMENT.

3. CONSERVATIVE SHADOW CABINET, WHICH MET EVENING OF JULY 1, RESERVED ITS POSITION ON THE GOVERNMENT'S PROPOSALS UNTIL FURTHER DETAILS ARE FORTHCOMING. THE TORIES, HOWEVER, WERE RELIEVED THAT THE GOVERNMENT HAD ACTED, THOUGH SHADOW CHANCELLOR HOWE NOTED THAT PROPOSED MEASURES WOULD BE HARD ON PRIVATE SECTOR. HE ALSO POINTED OUT MEASURES LACKED ANY MENTION OF NEEDED CUTS IN PUBLIC EXPENDITURE AND OF ABANDONMENT OF FURTHER NATIONALIZATION. LIBERAL ECONOMIC SPOKESMAN JOHN PARDOE, RESPONDING TO HEALEY'S STATEMENT IN COMMONS, ASSERTED THAT HIS STATEMENT SHOULD BE SEEN AS VINDICATION OF THE LIBERAL PARTY MANIFESTO WHICH ADVOCATED A STATUTORY POLICY.

4. COMMENT: WE UNDERSTAND HEALEY' STATEMENT WAS AD-

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PAGE 01 LONDON 10191 02 OF 02 021634Z

42

ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

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FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 AGR-05 /102 W

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R 021616Z JUL 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2547

INFO AMEMBASSY BONN

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LIMITED OFFICIAL USE SECTION 02 OF 02 LONDON 10191

VANCED 24 HOURS BECAUSE OF CONTINUED PRESSURE ON THE STERLING. THE CABINET ALSO NO DOUBT HOPED THAT HEALEY STATEMENT WILL PROVIDE A FURTHER IMPETUS TO TUC/CBI EFFORTS TO REACH AGREEMENT ON A NEW VOLUNTARY POLICY, THE "SOCIAL CONTRACT, MARK II". WHILE THE DETAILS OF THE GOVERNMENT'S PROPOSAL ARE NOT KNOWN (A WHITE PAPER WAS

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PAGE 02 LONDON 10191 02 OF 02 021634Z

PROMISED FOR NEXT WEEK) AND WILL INFLUENCE ATTITUDES IN BOTH THE TRADE UNION MOVEMENT AND THE PLP, THE FACT REMAINS THAT ANY STATUTORY POLICY WILL BE RESISTED TO A GREATER OR LESSER DEGREE BY THE TUC AND AT LEAST PART OF THE PLP LEFT-WING. THIS RESISTANCE COULD SERIOUSLY DAMAGE BOTH THE LABOR MOVEMENT AND THE GOVERNMENT, AND ENSURE THE FAILURE OF THE STATUTORY POLICY ITSELF. THE SITUATION IS MADE WORSE BY LEFT-WING PERCEPTIONS THAT THE GOVERNMENT IS BACKSLIDING ON THE INDUSTRY BILL CURRENTLY UNDER CONSIDERATION IN COMMONS (LAST NIGHT THE TRIBUNE GROUP VOTED AGAINST THE GOVERNMENT ON 5 AMENDMENTS TO INDUSTRY BILL -- THE TORIES SUPPORTED THE GOVERNMENT), THE POSSIBLE REMERGENCE OF ANTI-EC SENTIMENT IN THE PLP (SEPTEL) AND GROWING CONCERN THAT A STATUTORY POLICY WILL PRECLUDE ANY SIGNIFICANT INCREASE IN MPS SALARIES (THEY HAVE NOT BEEN INCREASED FOR THREE AND HALF YEARS) WHICH HAD BEEN EXPECTED SHORTLY. ON BALANCE IT APPEARS THAT THE GOVERNMENT WILL BE FACED WITH AN ESPECIALLY FRACTIOUS PLP AT A TIME WHEN UNITY OF PURPOSE IS BADLY NEEDED. ALTHOUGH THERE IS LITTLE PROSPECT THAT A STATUTORY INCOMES POLICY WOULD FAIL IN PARLIAMENT, ITS PASSAGE WILL PROBABLY DEPEND ON THE CONSERVATIVES. THE COST TO THE WILSON GOVERNMENT COULD BE VERY HIGH INDEED.

RICHARDSON

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